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16 July 1984

Sitrep

Poland

Poland and commercial bankers signed an agreement on 13 July to reschedule about $1.5 billion due in 1984-87 over 10 years with a five year-grace period. The banks also agreed to extend more than $600 million in short-term credits over the next two years. The signing was threatened at the last monent when the Poles insisted that all banks accept the new money portion of this agreement. Apparently Warsaw agreed to less than 100 percent approval. 25X1

Discussions with the Paris Club are faring less well. The stalemate continues over Poland's failure to pay off 20 percent of the interest arrearages from the 1981 accord as agreed to in May. At a 7 July working group meeting, all creditors except the US reported receiving some payments, though many had not received the full amount. In addition, Warsaw is reneging on its pledge to pay the non-consolidated debt owed the US. The Polish delegation informed a working group that payments could not be met as the regime in Warsaw has set aside a fixed amount for debt repayments this year and the limit can not be exceeded. The next working group meeting is scheduled for September, at the earliest. The Paris Club is united in not convening formal negotiations until the payments problem has been resolved. 25X1

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Hungary:

The Hungarian National Bank officials responsible for relations with the IMF told the US Embassy recently that Budapest expects a favorable mid-term review by the IMF of its financial stabilization program next month. Hungary has complied with most of the criteria in the program, including the removal of most import restrictions introduced in 1982, an 8-percent devaluation of the forint, and an increase in domestic interest rates. In addition, Budapest has kept its promise to introduce a new comprehensive reform package. 25X1

The official admits, however, that the IMF remains concerned that overly rapid growth of the legalized private sector is undermining efforts to stabilize the economy. He says real incomes in the private sector are increasing at an annual rate of 32 percent, while real incomes in the socialist sector are declining. In addition, the official notes that Hungary is making only slow progress in meeting the IMF's instruction to reduce the amount of its short-term debt. Nonetheless, he does not foresee any major problems over these issues. 25X1

Lending by other Western creditors also is progressing well. According to Western press reports, the selldown of the World Bank cofinancing package is near completion and will reach over $480 million. The loans will supplement two already approved World Bank loans totalling $200 million for projects to expand export capability and develop Hungary's oil and natural gas industry. Budapest also has begun negotiations to join the International Finance Corporation, a subsidiary of the World

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Bank. The Hungarians are interested in establishing a financial system for small private sector enterprises and agricultural cooperatives. [redacted] 25X1

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East Germany

East Germany's financial outlook continues to improve, buoyed by a second "jumbo" loan expected soon from a consortium of West German banks. A West German spokesman confirmed that a $335 million loan awaits the formal approval of Bonn, which could come at next week's cabinet meeting. The credit is for 5 years at 5/8 percentage point over LIBOR, a lower rate than that carried by last year's $400 million credit. Though West German officials are not publicly mentioning any quid pro quos, a West German bank official told the US Embassy that the loan was linked to such issues as lower exchange requirements for visits to East Germany and more lenient East German emigration policies. Bonn's approval apparently hinges on working out these political glitches with East Berlin. 25X1

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